

GRAND WATER & SEWER SERVICE AGENCY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Grand Water & Sewer Service Agency
Moab, Utah 84532

We have audited the accompanying financial statements of the business-type activities of Grand Water & Sewer Service Agency, as of and for the year ended December 31, 2005, which collectively comprise the Agency's basic financial statements as listed in the financial section of the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

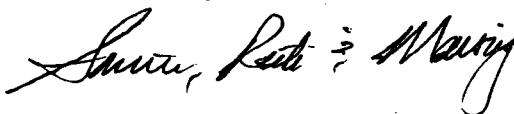
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Grand Water & Sewer Service Agency as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 12, 2006, on our consideration of Grand Water & Sewer Service Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis, as listed in the financial section of the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of Grand Water & Sewer Service Agency. The accompanying financial information listed as supporting schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SMUIN, RICH & MARSING

A handwritten signature in cursive script, appearing to read "Smuin, Rich & Marsing", is written over the printed firm name.

Price, Utah

May 12, 2006

GRAND WATER & SEWER SERVICE AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005

This discussion and analysis of Grand Water & Sewer Service Agency's ("the Agency") financial performance provides an overview of the Agency's financial activities for the year ended December 31, 2005. This report is provided in conjunction with the Agency's financial statements.

The purpose of the Agency is to provide water, both culinary and irrigation, and sewer collection for its customers. GW&SSA was created in January 1, 1999 as an inter-local agency to handle the administration, maintenance and operation of three Districts – Grand County Water Conservancy District, Grand County Special Service Water District and Spanish Valley Water & Sewer Improvement District.

Financial Highlights

- ❖ The Agency's net assets increased \$199,780 in 2005, as a result of this year's operation. This is an 11.20 percent increase in the net assets as compared to the prior year.
- ❖ The Agency's operating revenues increased from \$1,171,202 in 2004 to \$1,285,943 in 2005, a 9.37 percent increase. In comparison, operating expenses increased 1.85 percent, from \$761,520 in 2004 to \$ 775,628 in 2005.
- ❖ During the year, the Agency received a non-operating transfer of \$10,960 from Grand County Special Service Water District for the handling of their administration, maintenance, and operations.
- ❖ The Agency transferred \$319,271 to Spanish Valley Water & Sewer Improvement District and \$75,000 to Grand County Water Conservancy District to aid in the payment of their bonds.

Overview of the Financial Statements

Grand Water & Sewer Service Agency's annual report consists of a series of financial statements, which include the following:

Statement of Net Assets – Proprietary Funds (Exhibit A) provides information on all of the assets and liabilities of the Agency, with the difference between the two reported as net assets. This is one way to measure the Agency's financial position. Increases or decreases in the Agency's net assets are one indicator of whether the financial position of the Agency is improving or deteriorating. The condition of the Agency's water distribution and sewer collection systems needs to be considered in order to assess the overall health of the Agency.

Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds (Exhibit B) reports on information about the Agency's activities in a way that helps determine the Agency's financial picture as a result of the year's activities.

Overview of the Financial Statements (Continued)

Notes to Financial Statements (pages 16-23) provide additional information necessary for a full understanding of the data provided.

Schedule 1 (pages 24-25) is a schedule that allocates the revenues, expenditures and administration costs of Grand Water & Sewer Service Agency back into each of the three Districts.

Reporting the Agency As A Whole

The analysis of the Agency as a whole begins on page 10. The Agency's total financial picture can be determined from the report information in The Statement of Net Assets – Proprietary Funds and Statement of Revenues as well as Expenses and Changes in Fund Net Assets – Proprietary Funds. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Reporting the Agency's Significant Fund

The Agency has only one fund, which accounts for all the activity of the Agency. The financial statements begin on page 10 and provide detailed information about the operations of the Agency as a whole. The Agency's only fund is operated as an enterprise fund. Enterprise funds are reported using an accounting method called accrual accounting, which records expenses when they are incurred and records revenues when they are earned. The Agency does not have any governmental type funds.

The Agency as a Trustee

The Agency does not hold any funds or property in a trustee capacity.

The Agency as a Whole

Net assets of the Agency changed by \$201,499 (includes a prior year adjustment) from a year ago, increasing from \$1,784,106 to \$1,985,605. The following analysis focuses on the net assets (Table 1) and changes in net assets (Table 2 & 3) of the Agency's business-type activity. *Unrestricted* net assets, the part of net assets that can be used to finance the day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, are \$150,862. These net assets are used to finance the continuing operations of providing culinary and irrigation water and sewer collection to citizens within the Agency's boundaries.

The Agency as a Whole (Continued)

Table 1
Net Assets

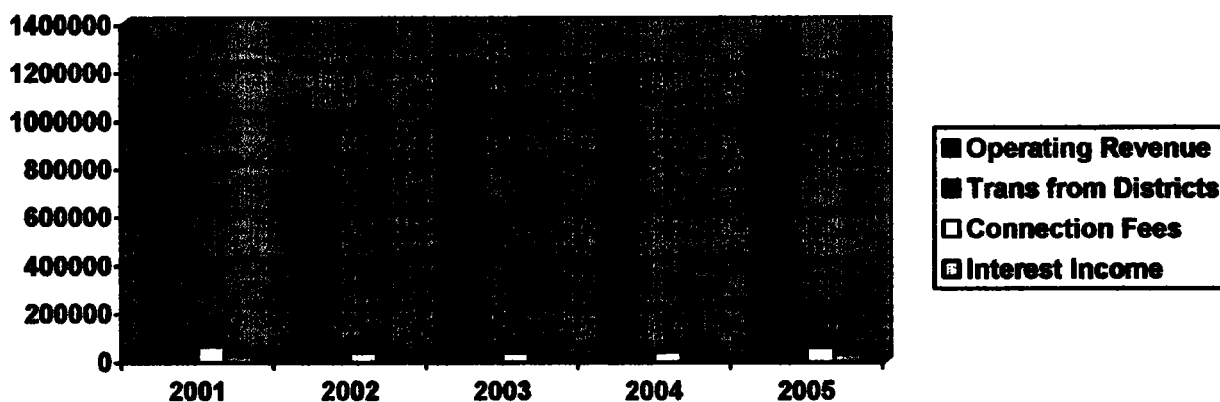
	2001	2002	2003	2004	2005	2004-2005 Net Changes
Assets						
Current and other assets	\$ 1,072,922	\$ 1,085,482	\$ 1,244,728	\$ 1,360,952	\$ 1,396,753	\$ 35,801
Capital assets, net of depreciation	329,461	458,795	584,584	601,587	648,376	46,789
Total assets	<u>\$ 1,402,383</u>	<u>\$ 1,544,277</u>	<u>\$ 1,829,312</u>	<u>\$ 1,962,539</u>	<u>\$ 2,045,129</u>	<u>\$ 82,590</u>
Liabilities						
Current liabilities	\$ 71,186	\$ 40,780	\$ 70,571	\$ 178,433	\$ 59,524	\$ (118,909)
Total liabilities	<u>\$ 71,186</u>	<u>\$ 40,780</u>	<u>\$ 70,571</u>	<u>\$ 178,433</u>	<u>\$ 59,524</u>	<u>\$ (118,909)</u>
Net Assets						
Investment in capital assets, net of related debt	\$ 329,461	\$ 458,795	\$ 584,584	\$ 601,587	\$ 648,376	\$ 63,792
Restricted	451,422	434,427	598,294	1,011,219	1,186,367	588,073
Unrestricted	550,314	610,275	575,863	171,300	150,862	(20,438)
Total net assets	<u>\$ 1,331,197</u>	<u>\$ 1,503,497</u>	<u>\$ 1,758,741</u>	<u>\$ 1,784,106</u>	<u>\$ 1,985,605</u>	<u>\$ 201,499</u>

Changes in Revenues

The Agency realizes operating revenue from the following sources: irrigation water, culinary water, sewer fees, and impact fees. Operating revenues increased \$114,741 and total revenues increased \$157,709 over the prior year.

Table 2
Changes in Revenues

Revenues	2001	2002	2003	2004	2005	2004-2005 % Change
Operating revenue	\$ 1,299,926	\$ 990,438	\$ 1,223,914	\$ 1,171,202	\$ 1,285,943	9.37%
Trans from districts	46,573	39,705	9,296	5,904	10,960	54.39%
Connection fees	68,309	42,218	40,641	43,687	62,889	47.25%
Interest income	28,175	16,738	14,230	16,734	35,444	131.48%
Total Revenues	\$ 1,442,983	\$ 1,089,099	\$ 1,288,081	\$ 1,237,527	\$ 1,395,236	8.32%

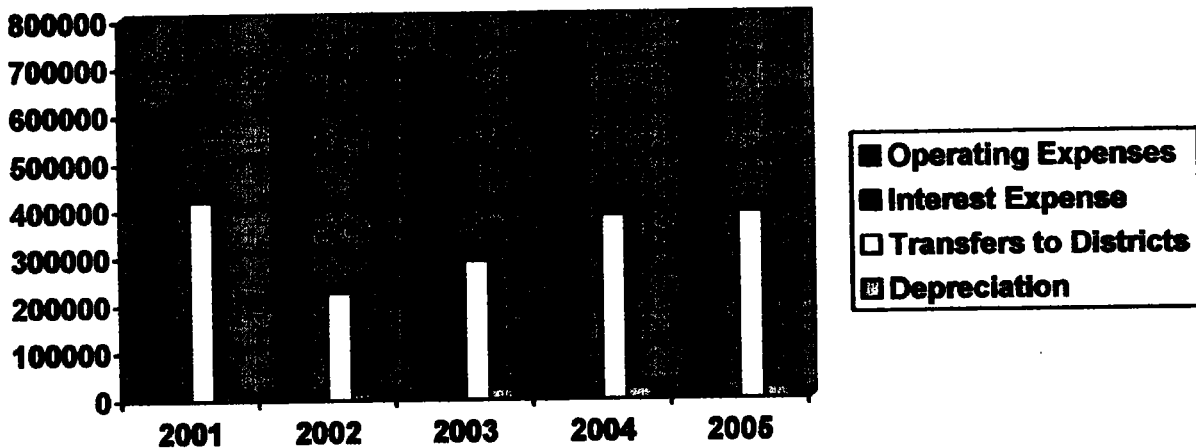


Changes in Expenditures & Net Assets

The Agency incurred operating expenses related to providing irrigation and culinary water, and sewer collection service to its customers. Operating expenses increased \$14,108 and total expenses increased \$21,586 over the prior year. Net assets of the Agency changed by \$201,499 from a year ago, increasing from \$1,784,106 to \$1,985,605. The following analysis focuses on the net assets and changes in net assets of the Agency's business-type activity.

Table 3
Changes in Expenditures & Net Assets

Expenses	2001	2002	2003	2004	2005	2004-2005 % Change
Operating expenses	\$ 590,477	\$ 654,547	\$ 716,689	\$ 761,520	\$ 775,628	1.85%
Interest expense	986	1,769	13	18	182	911.11%
Transfers to districts	422,741	226,700	293,247	388,807	394,271	1.41%
Depreciation	9,950	16,760	22,868	23,525	25,375	7.86%
Total expenses	\$ 1,024,154	\$ 899,776	\$ 1,032,837	\$ 1,173,870	\$ 1,195,456	1.84%
Net assets - beginning	\$ 902,418	\$ 1,297,414	\$ 1,503,497	\$ 1,758,741	\$ 1,784,106	
Prior period adjustments				(38,292)	1,719	
Net assets - ending	\$ 1,331,197	1,503,497	1,758,741	1,784,106	1,985,605	
Change in net assets	\$ 428,779	\$ 206,083	\$ 255,244	\$ 63,657	\$ 201,499	216.54%



Actual Versus Budget Amounts

Over the course of the year, the Agency amended its budget once. The budget was amended near the end of the year in order to prevent a budget overrun and to make it more closely reflect the actual revenue and expenditures during the year. Even with these amendments, the actual charges to appropriations (expenses) were \$63,909 below the budget amounts. Resources for appropriation (revenues) were \$9,069 above the final budgeted figures.

Table 4
Actual vs. Budget Amounts

	2005 Actual	12/9/2004 2005 Budget	Amended 12/8/2005 2005 Budget	Actual vs Budget Variance
Revenues				
Operating revenue	\$ 1,285,943	\$ 994,495	\$ 1,018,341	\$ (267,602)
Trans from districts	10,960	7,036	10,960	
Connection fees	62,889	233,150	323,866	260,977
Interest income	35,444	16,500	33,000	(2,444)
	<u>\$ 1,395,236</u>	<u>\$ 1,251,181</u>	<u>\$ 1,386,167</u>	<u>\$ (9,069)</u>
Expenses				
Operating expenses	\$ 775,628	\$ 789,956	\$ 840,894	\$ 65,266
Trans to districts	394,271	397,282	394,271	
Depreciation	25,375	26,000	24,000	(1,375)
Interest expense	182	200	200	18
	<u>\$ 1,195,456</u>	<u>\$ 1,213,438</u>	<u>\$ 1,259,365</u>	<u>\$ 63,909</u>

Capital Assets

At the end of 2005, the Agency had net capital assets of \$648,376 in a broad range of capital assets, including land, land easements, water rights, buildings/building improvements, improvements other than buildings, and equipment (see table 5).

Table 5
Capital Assets at Year-end
(Net of Depreciation)

	2001	2002	2003	2004	2005
Land			\$ 10,000	\$ 10,000	\$ 10,000
Land easements	\$ 19,202	\$ 19,202	19,202	19,202	19,202
Water rights			22,375	22,000	22,000
Building/building improvements		72,279	75,085	67,707	63,934
Improvements other than buildings	240,604	328,749	421,424	472,030	528,881
Equipment	35,872	38,565	36,498	10,647	4,359
Work in progress	33,783				
Net capital assets	<u>\$ 329,461</u>	<u>\$ 458,795</u>	<u>\$ 584,584</u>	<u>\$ 601,586</u>	<u>\$ 648,376</u>

Capital Assets (Continued)

This year's major additions included:

Water and sewer connections and additions	<u>\$ 72,165</u>
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All paid for by Agency Funds

Total major additions	<u>\$ 72,165</u>
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The Agency's fiscal year 2006 budget does not call for any major capital asset additions for the year ending December 31, 2005.

Debt

The Agency does not have any outstanding bonds or notes payable.

Expectation of Change in Financial Position

The Agency expects to pay out less to SVW&SID in 2006 due to the Zions Bonds paying off in May of 2006, which will provide funds to hire a new operator.

Contacting the Board and Staff

This financial report is designed to provide citizens with a general overview of the Agency's finances and to show accountability for the money it receives. If you have questions about this report or need additional financial information, contact Terry Sykes, Manager/Operator, Dan Pyatt, President, Gary Wilson, Vice Chairman, Brian Backus, Trustee, John Hartley, Trustee, Mike Holyoak, Trustee, Jerry McNeely, Trustee, Rex Tanner, Trustee, at P.O. Box 1046, Moab, Utah 84532.

GRAND WATER & SEWER SERVICE AGENCY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2005

BUSINESS-TYPE ACTIVITY
ENTERPRISE FUND

WATER & SEWER SERVICES

ASSETS

Current Assets:

Cash and cash equivalents	\$ 27,594
Investments, at cost	27,511
Restricted assets:	
Investments, at cost	1,186,367
Receivables:	
Accounts, net of allowance for doubtful accounts	109,873
Supplies inventory	41,218
Prepaid rents	4,190
	<hr/>
Total current assets	\$ 1,396,753

Noncurrent Assets:

Fixed Assets:

Land and land easements	\$ 29,202
Water rights	22,000
Building/Building Improvements	75,459
Improvements other than buildings	584,450
Equipment	32,609
Less: accumulated depreciation	(95,344)
	<hr/>

Total noncurrent assets **648,376**

Total assets **\$ 2,045,129**

"The accompanying notes are an integral part of this statement."

GRAND WATER & SEWER SERVICE AGENCY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2005

BUSINESS-TYPE ACTIVITY
ENTERPRISE FUND

WATER & SEWER SERVICES

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$	46,589
Compensated balances		8,341
Revenue collected in advance		4,569
Customer deposits payable		25

Total current liabilities **\$ 59,524**

Total liabilities **\$ 59,524**

Net Assets:

Investment in capital assets, net of related debt	\$	648,376
Restricted		1,186,367
Unrestricted		150,862

Total net assets **\$ 1,985,605**

"The accompanying notes are an integral part of this statement."

**GRAND WATER & SEWER SERVICE AGENCY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	BUSINESS-TYPE ACTIVITY ENTERPRISE FUNDS	
	<u>WATER & SEWER SERVICES</u>	
Operating Revenues:		
Water fees	\$	426,981
Sewer fees		452,078
Impact fees		272,380
Other fees		26,673
Irrigation fees		107,831
		<hr/>
Total operating revenue	\$	1,285,943
		<hr/>
Operating Expenses:		
Administrative fees	\$	207,003
Professional services		47,975
Office supplies		11,537
Utilities		2,175
Travel		5,479
Insurance		22,980
Depreciation		25,375
Public notices		1,207
Sewer treatment		124,214
Water assessments and purchases		32,893
Repairs and maintenance		292,283
Telephone		5,688
Dues and subscriptions		1,561
Bad debts		74
Billing expense		7,046
Rent		8,182
Miscellaneous		5,331
		<hr/>
Total operating expenses	\$	801,003
		<hr/>
Operating Income/(Loss)	\$	484,940
		<hr/>

"The accompanying notes are an integral part of this statement."

EXHIBIT B
(Continued)

GRAND WATER & SEWER SERVICE AGENCY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

		BUSINESS-TYPE ACTIVITY
		ENTERPRISE FUNDS
		<hr/>
		WATER & SEWER SERVICES
		<hr/>
Non-operating Revenues (Expenses)		
Interest income	\$	35,444
Interest expense		(182)
Connection fees		62,889
Transfers from other Districts		10,960
Transfer to other Districts		(394,271)
		<hr/>
Total non-operating revenues (expenses)	\$	(285,160)
		<hr/>
Change in net assets	\$	199,780
		<hr/>
Total net assets - Beginning		1,784,106
Prior period adjustment		1,719
		<hr/>
Total net assets - Ending	\$	1,985,605
		<hr/>

"The accompanying notes are an integral part of this statement."

GRAND WATER & SEWER SERVICE AGENCY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

Cash flows from operating activities:

Cash received from customers	\$ 1,278,065
Cash payments to suppliers for goods and services	(551,591)
Cash payments to employees for services	(212,347)

Net cash provided (used) by operating activities		\$ 514,127
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Cash flows from capital and related financing activities:

Net transfer from (to) other Districts	\$ (383,311)
Interest paid on customer deposits	(182)
Acquisition of capital assets	(72,165)
Connection fees and net water deposits	62,889

Net cash provided (used) by capital and related financing activities		(392,769)
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Cash flow from investing activities:

Interest on investments received	\$ 35,444
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Net cash provided by investing activities		35,444
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Net increase (decrease) in cash and cash equivalents		\$ 156,802
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Cash and cash equivalents at beginning of year		1,084,670
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Cash and cash equivalents at end of year		\$ 1,241,472
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"The accompanying notes are an integral part of this statement."

GRAND WATER & SEWER SERVICE AGENCY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED
(USED) BY OPERATING ACTIVITIES:**

Operating income (loss)		\$ 484,940
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	\$ 25,375	
Change in assets and liabilities:		
Decrease in accounts receivable	112,043	
Decrease in inventory	8,548	
Increase in accounts payable	8,076	
Decrease in compensated absences	(5,344)	
Decrease in prepaid rents	410	
Decrease in revenue collect in advance	(101,441)	
Decrease in customer deposits	(18,480)	
	<hr/>	
Total adjustments		<hr/> 29,187 <hr/>
Net cash provided (used) by operating activities		\$ 514,127 <hr/> <hr/>

"The accompanying notes are an integral part of this statement."

**GRAND WATER & SEWER SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Grand Water & Sewer Service Agency has been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Agency are described below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, (as amended by GASB Statement No. 37) Basic Financial Statements- and Management's Discussion and Analysis-for State and Local Governments. Certain significant changes in the Statement include the following:

1) The financial statements include:

A Management's Discussion and Analysis (MD&A) providing an analysis of the Agency's overall financial position and results of operations.

This and other changes are reflected in the accompanying financial statements (including notes to financial statements).

A. Reporting Entity

Grand Water & Sewer Service Agency (the Agency) is a separate legal and administrative entity pursuant to the provisions of section 11-13-5.5 of the Utah Code. The Agency is governed by a seven member operating committee who are part of a twelve member Board of Directors. The Agency is a legally separate entity that possesses the powers to set its own budget, incur debt, to sue and be sued, and to own and lease property. The County exercises no significant controlling powers over the Agency. As such, the Agency is not a component unit, as defined by the Governmental Accounting Standards Board in its statement number 14 "The Financial Reporting Entity". Further, as defined in this statement, the Agency has no component units, which should be included in the accompanying financial statements.

All financial activities over which the Agency has oversight responsibility are included in this report. The basis for inclusion or exclusion of other entities in the Agency's financial statements was based on the criteria set forth in the Governmental Accounting Standards Board (GASB) pronouncements. The basic criteria for including an entity, a board, or an agency in this report is the existence and exercise of oversight responsibility; consideration has been given to financial interdependency, ability to designate management, ability to significantly influence operations, and accountability for fiscal matters. According to the above criteria, no other entities have been included in the Agency's financial statements.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

B. **Government-Wide Financial Statements**

The government-wide financial statements consist of the statement of net assets, the statement of revenues, expenses and changes in fund net assets and the statement of cash flows. The Agency is considered a special-purpose government engaged only in business-type activities. It is classified as a proprietary fund type and operates as an enterprise fund. Enterprise funds are used to account for the operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that its costs to providing goods and services to the general public on a continuing basis, be financed or recovered primarily through user charges. The function of the Agency is to provide culinary water, irrigation water and sewer services to the population, which lives within the Agency's boundaries. The financial statements of the Agency consist only of an enterprise fund and neither fiduciary funds nor component units that are fiduciary in nature are included.

C. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

Basis of accounting refers to when revenues and expenditures or expense are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Therefore, revenues are recognized in the accounting period in which they are earned and become measurable and expenses are recognized in the period incurred, if measurable.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government wide or proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for business-type activities, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first then unrestricted resources, as they are needed.

Amounts reported as program revenues include charges to customers or applicants for goods and services associated with culinary water, irrigation water and sewer service.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

C. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

The Agency distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Agency's principal ongoing operations. The principal operating revenues of the Agency are charges to customers for sales of culinary water, irrigation water and sewer services. The Agency also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for the Agency include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. **Capital Assets**

Capital assets, which include, land, water rights, easements, buildings/building improvements, water and sewer improvements, and equipment are reported in the government-wide financial statements. Capital assets are defined by the Agency, as assets with an individual cost of \$3,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of the Agency is not included as part of the capitalized value of the assets constructed.

Buildings/building improvements, improvements other than buildings, and equipment of the Agency are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Equipment	5-10
Buildings/building improvements	20
Improvements other than buildings	20-39

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budget and Budgetary Accounting

The Agency follows the budgetary practices and procedures required by State Law. These requirements are summarized as follows:

1. The Agency adopts a formal budget.
2. The budget is a complete financial plan, which identified all estimated revenues and all appropriations for expenditures for the year.
3. On or before November 1st, the Agency Manager prepares a tentative budget and files it with the Board of Trustees.
4. The tentative budget is a public record and is available for public inspection for at least ten days prior to public hearings held to consider adoption of the budget.
5. Notice of the scheduled public hearings is published at least ten days prior to the meetings.
6. Public hearings are held on the tentatively adopted budget. Members of the public may comment on the budget and recommend changes to the Board of Trustees.
7. The Board of Trustees considers the comments made by the public and makes final adjustments to the budget.
8. By December 31, the Board of Trustees adopts the budget by resolution. A copy of the budget is certified by the County Auditor and is filed with the State Auditor within thirty days of adoption. A certified copy of the budget is available for public inspection.
9. The budget may be amended to reflect changes in circumstances, which occur during the year.

F. Cash and Cash Equivalents

For purposes of the statement of cash flow, Grand Water & Sewer Service Agency considers all highly liquid investments with maturity of six months or less when purchased, to be cash equivalents. All amounts reported on the balance sheet as cash and investment would be considered cash equivalents.

G. Accounts Receivable

Accounts receivable include the outstanding water and sewer billings and water and sewer connection fees billed and uncollected at year-end.

H. Uncollectible Accounts

An allowance account has been established for doubtful accounts based on past experience and anticipated collections.

I. Inventory

Inventory is comprised of supplies on hand to repair and maintain the water and sewer systems. The inventory is stated at cost using the first-in first-out method for determining year-end inventory costs.

2. DEPOSITS AND INVESTMENTS

The Agency follows the requirements of the Utah Money Management Act (Utah Code, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of Agency funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Agency's deposits may not be returned to it. The Agency does not have a formal deposit policy for custodial credit risk. At December 31, 2005, the Agency's bank balance of cash on deposit was \$44,180 of this amount \$44,180 was insured.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the Agency and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the Agency to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer. The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, and Utah Code Annotated, 1953, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

2. **DEPOSITS AND INVESTMENTS (Continued)**

As of December 31, 2005, the Agency had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More than 10
State of Utah Public					
Treasurer's Investment Fund	\$ 1,213,878	\$ 1,213,878			
Total Investments	\$ 1,213,878	\$ 1,213,878	\$...	\$...	\$...

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Agency manages this risk in part by investing in the Utah Public Treasurers Investment Fund. The Agency also manages its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptance, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 years.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Agency has not adopted a formal policy with regards to credit risk on investments but the Agency informally follows the policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed.

At December 31, 2005, the Agency had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
State of Utah Public					
Treasurer's Investment Fund	\$ 1,213,878				\$ 1,213,878
Total	\$ 1,213,878	\$...	\$...	\$...	\$ 1,213,878

2. DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Agency informal policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. No more than 5% of all funds may be invested in securities of a corporation that has been in continuous operation for less than three years. No more than 5% of the outstanding voting securities of any one corporation may be held. In addition, Rule 2 limits investment concentrations in certain types of investments. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Agency does not have a formal policy for custodial credit risk. As of December 31, 2005, the Agency had \$1,213,878 invested in the Public Treasurer's Investment Fund and was held by them.

3. PENSION

Local Governmental - Cost Sharing

Plan Description. Grand Water & Sewer Service Agency contributes to the Local Governmental Noncontributory Retirement System, a cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems. Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy. In the Local Governmental Noncontributory Retirement System Grand Water & Sewer Service Agency is required to contribute 11.09% from January 2005 through June 2005 and 11.09% from July 2005 to December 2005 of their annual employees covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Grand Water & Sewer Service Agency's contributions to the Noncontributory Retirement System for December 31, 2005, 2004 and 2003 were \$14,818, \$13,459 and \$11,321 respectively. The contributions were equal to the required contributions for each year.

4. **CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 10,000			\$ 10,000
Land easements	19,202			19,202
Water rights	22,000			22,000
Total capital assets not being depreciated	\$ 51,202	\$...	\$...	\$ 51,202
Capital assets being depreciated:				
Bldg/Bldg improvements	\$ 75,459			\$ 75,459
Improvements other than bldgs	512,285	\$ 72,165		584,450
Equipment	32,609			32,609
Total capital assets being depreciated	\$ 620,353	\$ 72,165	\$...	\$ 692,518
Less accumulated depreciation for:				
Bldg/Bldg improvements	\$ 7,752	\$ 3,773		\$ 11,525
Improvements other than bldgs	40,255	15,314		55,569
Equipment	21,962	6,288		28,250
Total accumulated depreciation	\$ 69,969	\$ 25,375	\$...	\$ 95,344
Total capital assets, being depreciated, net	\$ 550,384	\$ 46,790	\$...	\$ 597,174
Business-type activities capital assets, net	\$ 601,586	\$ 46,790	\$...	\$ 648,376

5. **ACCOUNTS RECEIVABLE**

Accounts receivable include the outstanding water and sewer bills and water and sewer connection fees accrued by contracts. The accounts receivable consisted of the following:

	<u>Total</u>
Water and Sewer Receivables	\$ 172,116
Less Allowance for Doubtful Accounts	<u>(62,243)</u>
Net	<u>\$ 109,873</u>

6. **RESTRICTED NET ASSETS**

The Agency has restricted net assets of \$1,186,367 for the year ending December 31, 2005. The restricted cash is impact fees and interest that are being held for the use in expanding capacity caused by development and growth.

7. **BONDS AND NOTES PAYABLE**

The Agency does not have any outstanding bonds or notes payable.

8. **RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2005, the Agency did not enter into any transactions that were with related parties.

9. **RISK MANAGEMENT**

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To cover these liabilities, the Agency has contracted with commercial insurance companies. The Agency pays an annual premium for this coverage.

10. **PRIOR PERIOD ADJUSTMENT**

During 2004, the Agency under reported revenue by \$1,719; therefore a prior period adjustment was made to correct the prior year.

**GRAND WATER & SEWER SERVICE AGENCY
STATEMENT OF REVENUES, EXPENDITURES/EXPENSES AND
ADMINISTRATION COSTS - ALLOCATED FOR ALL DISTRICTS
RECORDED IN THE GRAND WATER AND SEWER SERVICE AGENCY
FOR THE YEAR ENDED DECEMBER 31, 2005**

	GRAND WATER AND SEWER SERVICE AGENCY AUDIT TOTALS <u>DECEMBER 31, 2005</u>	GRAND COUNTY WATER CONSERVANCY DISTRICT - AUDIT AND ALLOCATED TOTALS <u>DECEMBER 31, 2005</u>	SPANISH VALLEY WATER & SEWER IMPROVEMENT DISTRICT - AUDIT AND ALLOCATED TOTALS <u>DECEMBER 31, 2005</u>	GRAND COUNTY SPECIAL SERVICE WATER DISTRICT - AUDIT AND ALLOCATED TOTALS <u>DECEMBER 31, 2005</u>
Governmental Revenues:				
Taxes		\$ 86,253	\$ 43,194	\$ 157,837
Interest income		7,147	9,554	11,890
Total governmental revenues	\$...	\$ 93,400	\$ 52,748	\$ 169,727
Operating Revenues: (allocated to Districts)				
Water fees	\$ 426,981	\$ 124,189	\$ 302,792	
Sewer fees	452,078		452,078	
Impact fees	272,380		272,380	
Other fees	26,673	526	26,147	
Irrigation fees	107,831	107,831		
Total operating revenues	\$ 1,285,943	\$ 232,546	\$ 1,053,397	\$...
Total all revenues	\$ 1,285,943	\$ 325,946	\$ 1,106,145	\$ 169,727
Governmental expenditures:				
Highways and public improvements		\$ 30	\$ 24	
Debt service-				
Principal		108,921	254,087	\$ 109,228
Interest and fees		53,787	69,976	51,127
Total governmental expenditures	\$...	\$ 162,738	\$ 324,087	\$ 160,355
Operating Expenses: (allocated to Districts)				
Administrative costs allocation (net of interest income - \$35,444)	\$ 297,061	\$ 36,377	\$ 260,684	
Water commissioner	3,806	3,806		
Sewer treatment	124,214		124,214	
Water assessments and purchases	32,893	32,893		
Repairs and maintenance	292,283	78,165	214,118	
Bad debts	74		74	
Billing expense	7,046	705	6,341	
Rent	8,182	818	7,364	
Total operating expenses	\$ 765,559	\$ 152,764	\$ 612,795	\$...
Total all expenditures/expenses	\$ 765,559	\$ 315,502	\$ 936,882	\$ 160,355

**GRAND WATER & SEWER SERVICE AGENCY
STATEMENT OF REVENUES, EXPENDITURES AND
ADMINISTRATION COSTS FOR ALL DISTRICTS
RECORDED IN THE GRAND WATER AND SEWER SERVICE AGENCY
FOR THE YEAR ENDED DECEMBER 31, 2005**

	GRAND WATER AND SEWER SERVICE AGENCY TOTALS <u>DECEMBER 31, 2005</u>	GRAND COUNTY WATER CONSERVANCY DISTRICT TOTALS <u>DECEMBER 31, 2005</u>	SPANISH VALLEY WATER & SEWER IMPROVEMENT DISTRICT TOTALS <u>DECEMBER 31, 2005</u>	GRAND COUNTY SPECIAL SERVICE WATER DISTRICT TOTALS <u>DECEMBER 31, 2005</u>
Excess of all revenues over (under) all expenditures/expenses	\$ 520,384	\$ 10,444	\$ 169,263	\$ 9,372
Non-operating Revenues (Expenses) (Agency amounts allocated to Districts)				
Interest expense	\$ (182)		\$ (182)	
Connection fees	62,889		62,889	
Transfer to Water & Sewer Agency	10,960	\$ (10,960)		\$ (10,960)
Transfer to Water Conservancy District	(75,000)	75,000		
Transfer to Spanish Valley W & S	(319,271)		319,271	
Total non-operating revenues (expenses)	\$ (320,604)	\$ 64,040	\$ 381,978	\$ (10,960)
Net income/(loss)	\$ 199,780	\$ 74,484	\$ 551,241	\$ (1,588)
Allocation of Grand Water & Sewer Service Agency net income/(loss) *	\$ 199,780	15,742	184,038	
Net income/(loss) current year	\$...	\$ 90,226	\$ 735,279	\$ (1,588)

* Calculation of allocated Net income/(loss)
of Grand Water & Sewer Service Agency

Total operating revenues	\$ 232,546	\$ 1,053,397
Total operating expenses	(152,764)	(612,795)
Net operating income/(loss)	\$ 79,782	\$ 440,602
Non-operating revenues/(expenses)		
Interest expense		\$ (182)
Connection Fees		62,889
Transfer from/(to)	\$ (64,040)	(319,271)
Total non-operating revenues/(expenses)	\$ (64,040)	\$ (256,564)
Net income/(loss)	\$ 15,742	\$ 184,038

Note: This schedule is for analysis of funds available in the Grand Water & Sewer Service Agency that pertain to Grand County Water Conservancy District, Spanish Valley Water & Sewer Improvement District and Grand County Special Service Water District. Financial information does not necessarily reflect the revenues and expenditures/expenses reported in their individual reports.

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MEMBERS
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Grand Water & Sewer Service Agency
Moab, Utah 84532

RE: Report on Compliance and on Internal
Control Over Financial Reporting Based on
an Audit of Financial Statements Performed
in Accordance With Government Auditing
Standards

We have audited the financial statements of Grand Water & Sewer Service Agency as of and for the year ended December 31, 2005, and have issued our report thereon dated May 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the operating committee, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

SMUIN, RICH & MARSING

A handwritten signature in cursive script, appearing to read "Smuin, Rich & Marsing".

Price, Utah

May 12, 2006

SMUIN, RICH & MARSING

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Board of Trustees
Grand Water & Sewer Service Agency
Moab, Utah 84532

**Re: Report on Legal Compliance with Applicable
Utah State Laws and Regulations**

Ladies/Gentlemen:

We have audited the accompanying financial statements of the business-type activities of Grand Water & Sewer Service Agency for the year ended December 31, 2005, and have issued our report thereon dated May 12, 2006. Our audit included testwork on the Agency's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Budgetary Compliance
Cash Management
Purchasing Requirements

Special Districts
Other Compliance Requirements

The Agency did not receive any state grants for the year ended December 31, 2005.

The management of Grand Water & Sewer Service Agency is responsible for the Agency's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Grand Water & Sewer Service Agency, complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2005.

SMUIN, RICH & MARSING

Smuin, Rich & Marsing

Price, Utah

May 12, 2006